

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 EUR-12 EA-07 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 PA-01
PRS-01 L-03 NSC-05 SS-15 STR-04 CEA-01 /103 W
-----056605 051405Z /45

R 051321Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5791
TREASURY DEPT WASHDC
INFO AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY TOKYO
AMEMBASSY KINSHASA

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E.O. 11652: GDS
TAGS: EFIN, CG, UK
SUBJECT: PARIS CLUB MEETING ON ZAIRE

REF: A) LONDON 9828 B) STATE 132820

1. JOHN SLATER, ASSISTANT SECRETARY, TREASURY HAS SENT
FINANCIAL ATTACHE LETTER ON PARIS CLUB MEETING ON ZAIRE.
TEXT FOLLOWS:

2. QUOTE ON THE WHOLE, WE ARE NOT PARTICULARLY ATTRACTED
BY THE IDEA OF RESCHEDULING INTEREST, AS WELL AS PRINCIPAL
FOR THE FIRST HALF OF 1977. WE THINK THAT THIS MAY BE
GOING FURTHER THAN IS NECESSARY, AND THAT IMPOSITION OF
THE PROPOSED CONDITIONS MIGHT MAKE AGREEMENT DIFFICULT AND
EARLY IMPLEMENTATION UNLIKELY. IN OUR VIEW THE AIM SHOULD
BE TO SECURE AGREEMENT AND IMPLEMENTATION AS QUICKLY AS
POSSIBLE. THIS SEEMS PARTICULARLY IMPORTANT IN VIEW OF

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THE TIME IT HAS TAKEN TO CONCLUDE BILATERAL AGREEMENTS FOR
THE 1975/76 MATURITIES: OUR OWN BILATERAL AGREEMENT, FOR
EXAMPLE, HAS STILL NOT BEEN SIGNED. WE ARE, OF COURSE,
A MINOR CREDITOR OF ZAIRE, AND THE EFFECTS OF YOUR PROPO-
SAL UPON OUR CLAIMS WOULD BE RELATIVELY SMALL. NEVERTHE-
LESS' ON PRESENT EVIDENCE WE ARE RATHER DOUBTFUL WHETHER
THERE IS MUCH ADVANTAGE FOR ANYONE IN FOREGOING A FURTHER

6 MONTHS' INTEREST. ON THE AVAILABLE FIGURES, THE TOTAL SAVING FOR ZAIRE WOULD PROBABLY BE ONLY AROUND \$14 MILLION TO \$20 MILLION, COMPARED WITH TOTAL DEBT SERVICE OF \$265 MILLION AND PROJECTED 1977 EXPORT EARNINGS OF AROUND \$1250 MILLION.

OUR OWN INCLINATION, THEREFORE, IS TO STICK TO THE AGREED MINUTE OF THE 1976 PARIS MEETINGS AND TO PARAGRAPH 3 IN RESPECT OF PAYMENT OF INTEREST. WE THINK IT WOULD BE COMPLICATING MATTERS UNDULY AT THIS STAGE TO DECIDE ON RESCHEDULING INTEREST FOR THE FIRST HALF OF 1977 BUT FOR NEITHER THE SECOND HALF OF 1976 NOR THE SECOND HALF OF 1977.

SO FAR AS THE BANKS' PART IN THE DEBT EXERCISE IS CONCERNED, WE ARE GENERALLY SYMPATHETIC TO YOUR VIEWS ABOUT "COMPARABLE" TREATMENT. BUT WE NEVERTHELESS FEEL THAT IT WOULD BE UNREALISTIC TO SEEK TOO CLOSE A PARITY BETWEEN THE TREATMENT OF OFFICIAL AND BANKING DEBTS. THE BANKS REGARDED THE LONDON AGREEMENT AS TANTAMOUNT TO REFINANCING ALL 1975-77 AND SOME 1978 MATURITIES. ADMITTEDLY THE \$250 MILLION LOAN HAS NOT YET GOT OFF THE GROUND; BUT ANY MENTION OF FURTHER RESCHEDULING, FOLLOWING THE INEVITABLE DELAY AFTER THE RECENT HOSTILITIES IN ZAIRE, WOULD UNDOUBTEDLY JEOPARDISE ITS CHANCES OF SUCCESS. OFFICIAL AND BANKING DEBTS ARE NOT OF COURSE DIRECTLY COMPARABLE, AND THEY ARISE FROM LOANS MADE ON DIFFERENT JUDGMENTS. WHILST IT MAY BE POSSIBLE FOR GOVERNMENTS TO

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RESCHEDULE INTEREST, IT IS OUT OF THE QUESTION FOR BANKS AS LONG AS INTEREST IS BEING PAID, NO MATTER HOW OVERDUE THE CAPITAL REPAYMENT, THE LOAN NEED NOT BE WRITTEN OFF. BUT ZAIRE'S REINSTATEMENT AS A CREDIT-WORTHY BORROWER WOULD BE INHIBITED IF THE BANKS HAD TO WRITE-OFF BAD DEBTS

WE THEREFORE SUGGEST SOME SLIGHT TONING DOWN OF THE LINE TAKEN IN YOUR NOTE. (I.E., SUBSTANCE PARAS 2-7 REF B) THERE MIGHT BE NO HARM IN A RIDER STATING THAT WHATEVER AGREEMENT IS REACHED IN PARIS WILL BE OFFICIALLY SIGNED ONLY AFTER THE LOAN IS RAISED; BUT ANYTHING MORE COULD, IN OUR VIEW, JEOPARDISE THE RAISING OF THE LOAN. THE DANGER WE SEE IS THAT IF THE LOAN WERE UNDULY DELAYED AND OFFICIAL RESCHEDULING WITHHELD, ZAIRE WOULD BE UNABLE TO MAKE DEBT PAYMENTS AND WE WOULD ALL BE BACK TO SQUARE ONE.

I SHALL NOT MYSELF BE GOING TO PARIS, BUT BLACKBURN OF ECGD AND MAYES OF THE BANK OF ENGLAND WILL BOTH BE THERE IF YOU OR YOUR PEOPLE WANT TO DISCUSS THIS FURTHER THERE. J.F. SLATER UNQUOTE

BREWSTER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXT, LOAN AGREEMENTS, DEBT REPAYMENTS, DIPLOMATIC COMMUNICATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 05-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON11001
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770238-0091
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770792/aaaadces.tel
Line Count: 114
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a4215171-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 LONDON 9828, 77 STATE 132820
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1968072
Secure: OPEN
Status: NATIVE
Subject: PARIS CLUB MEETING ON ZAIRE
TAGS: EFIN, CG, UK, PARIS CLUB, (SLATER, JOHN F)
To: STATE TRSY
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/a4215171-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009